

**LYON COUNTY BOARD OF EDUCATION**

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FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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**Independent Auditor's Report**

Kentucky State Committee For School  
District Audits  
Members of the Board  
Lyon County Board of Education  
Eddyville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lyon County Board of Education as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, the Board has restated its beginning fund balance and beginning net assets to correct beginning short-term and long-term sick leave.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2005, on our consideration of Lyon County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 6 and 30 through 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lyon County Board of Education's basic financial statements. The additional information shown on pages 32 through 40, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 41 and 42 is presented for purposes of additional analysis as required to be presented by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Lyon County Board of Education. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Williams, Williams & Lenty, LLP*

August 29, 2005

## **REQUIRED SUPPLEMENTARY INFORMATION**

**LYON COUNTY BOARD OF EDUCATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2005**

As management of the Lyon County School District, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$1,929,912. This total incorporates all funds, including Governmental and Fiduciary.
- The Board initiated no new major construction projects nor issued bonds in fiscal year 2005. The final payment on the middle school was not made until October, 2004, due to final approval.
- Due to the increase of interest rates, interest income rose to \$43,611.
- The District General Fund had \$5,986,874 in revenue primarily from the state program (SEEK), property taxes, local occupational license taxes, utility taxes, and motor vehicle taxes. Excluding interfund transfers, there was \$6,013,142 in expenditures.
- The ending balance for the District General Fund was \$1,444,781, a decrease of \$261,396 from the prior year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt and interest amount to \$9,009,789 at the end the fiscal year.
- The state mandated a 2.7% salary increase for certified staff. The District provided a 3.5% increase for certified staff and classified staff.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information.

**Government-wide financial statements:** The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, the changes in net assets, both increases and decreases, may serve as an indicator of the District's financial position. Increases in net assets indicate an improving financial position and decreases indicate a deteriorating position. However, the reader must understand that the District's goal is to provide quality services to our students, not to generate profits as commercial entities strive to do. Many non-financial factors must be considered when looking at the position of the District, such as the property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. The District uses an accrual basis of accounting, commonly used by private-sector businesses. This accounting practice takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

The government-wide financial statements outline functions of the District normally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7 and 8 of this report.

**Fund financial statements:** A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to guarantee and exhibit compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, fiduciary, and proprietary funds. Our only proprietary fund is food service operations. Fiduciary funds are held as trust funds established by benefactors to aide in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statement can be found on pages 9 through 16 of this report.

**Notes to the financial statements:** The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 17 through 29 of this report.

## **COMMENTS ON BUDGET COMPARISONS**

- During the fiscal year ended June 30, 2005, the District amended its General Fund budget numerous times. Most amendments were due to changes in expenditure priorities.
- The District's General Fund revenues for the fiscal year ended June 30, 2005, net of interfund transfers and on-behalf payments, were \$5,059,225 which is \$330,355 more than budgeted. The excess over budget was due to local tax collections, payments in lieu of taxes, interest income, and SEEK payments being above the forecasted amounts.
- The District's General Fund expenditures for the fiscal year ended June 30, 2005, net of interfund transfers and on-behalf payments, were \$5,085,493. Expenditures were \$944,420 less than budgeted due to changes in personnel and fewer vehicle, furniture, and equipment purchases.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,817,163 as of June 30, 2005.

A large portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; as a result, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The District's financial position is the result of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.



### Net Assets for the Years Ended June 30

<b>Assets:</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Current assets	\$ 1,892,012	\$ 2,338,464
Noncurrent assets	<u>7,834,601</u>	<u>7,841,294</u>
Total assets	<u>9,726,613</u>	<u>10,179,758</u>
<b>Liabilities:</b>		
Current liabilities	607,450	572,864
Noncurrent liabilities	<u>6,302,000</u>	<u>6,671,999</u>
Total liabilities	<u>6,909,450</u>	<u>7,244,863</u>
<b>Net Assets:</b>		
Investment in capital assets (net of debt)	1,009,610	1,036,669
Restricted	385,190	212,358
Unrestricted	<u>1,422,363</u>	<u>1,685,868</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 2,817,163</u></b>	<b><u>\$ 2,934,895</u></b>

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

- The District purchased two buses for District use.
- Technology purchases continued by replacing outdated systems and upgrading servers.

The following table presents a summary of overall revenue and expense for the fiscal years ended June 30:

<b>Revenues:</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Taxes:		
Real estate	\$ 1,790,914	\$ 1,849,181
Motor vehicle	208,636	171,250
Utility	399,294	346,705
In-lieu of tax	412,352	421,376
Other	206	1,217
State aide-formula grants	2,419,637	2,508,040
Investment earnings	43,611	30,141
On-behalf payments	979,368	877,663
Other	26,855	51,379
Special items:		
Gain on sale of equipment	9,656	879
Charges for services	181,422	188,060
Operating grants and contributions	1,032,323	1,049,179
Capital grants and contributions	<u>175,012</u>	<u>178,021</u>
Total revenue	<u>7,679,286</u>	<u>7,673,091</u>
<b>Expenses:</b>		
Instruction	4,320,769	4,057,298
Student support services	214,291	199,796
Instructional support	494,673	408,226
District administration	329,806	451,001
School administration	374,481	388,725
Business support	132,105	110,109
Plant operations	587,349	503,201
Student transportation	431,432	414,027
Community support	98,892	130,938
Facility acquisition and construction	89,405	118,752
Interest on long-term debt	275,742	285,136
Food service	<u>448,073</u>	<u>344,653</u>
Total expenses	<u>7,797,018</u>	<u>7,411,862</u>
<b>CHANGE IN NET ASSETS</b>	<b><u>\$ (117,732)</u></b>	<b><u>\$ 261,229</u></b>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal year 2005, the District had \$7,834,601 invested in land, buildings, and equipment. Of that amount, \$7,779,518 is in governmental activities.

There were significant increases in buildings due to construction and improvements made at various schools.

See footnote 6 for a breakdown of additions by class on page 25.

### **Debt Administration**

The District had \$9,009,789 in bonds and interest outstanding on June 30, 2005. A total of \$618,583 is due within one year.

See note 7 on pages 25 and 27 for a detailed listing.

## **BUDGETARY IMPLICATIONS**

In Kentucky the fiscal year for public schools runs from July 1 – June 30; other programs, e.g., federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget.

By law, the District must maintain a 2% contingency. The District ended the year with a 5% contingency. The District has developed a budget for the next fiscal year that contains a 2% contingency. Significant Board actions may impact this budget during the year.

Questions regarding this report should be directed to the Superintendent, Dr. Lee Gold (270-388-9715), or Sandra Littlejohn, Finance Officer (270-388-9715 Ext. 401), or by mail at 217 Jenkins Road, Eddyville, KY 42038.

## **BASIC FINANCIAL STATEMENTS**

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET ASSETS**  
JUNE 30, 2005

<u><b>ASSETS</b></u>	<u><b>Governmental Activities</b></u>	<u><b>Business-Type Activities</b></u>	<u><b>Totals (Memorandum Only)</b></u>
Cash and cash equivalents	\$ 1,417,806	\$ 28,519	\$ 1,446,325
Accounts receivable:			
Taxes	85,874	-	85,874
Delinquent taxes, net of allowance of \$95,000	75,331	-	75,331
Accounts	2,878	-	2,878
Intergovernmental - state	1,226	-	1,226
Intergovernmental - federal	100,052	15,459	115,511
Deferred bond issuance costs and discounts	158,008	-	158,008
Inventories	-	6,859	6,859
Nondepreciated capital assets:			
Land	16,806	-	16,806
Depreciated capital assets:			
Land improvements	724,533	-	724,533
Buildings	9,302,710	59,229	9,361,939
Furniture and equipment	1,825,785	143,130	1,968,915
Less: accumulated depreciation	(4,090,316)	(147,276)	(4,237,592)
<b>TOTAL ASSETS</b>	<u><u>\$ 9,620,693</u></u>	<u><u>\$105,920</u></u>	<u><u>\$ 9,726,613</u></u>

**LIABILITIES AND NET ASSETS**

<b>Liabilities:</b>			
Accounts payable	\$ 40,904	\$ 115	\$ 41,019
Deferred revenues	95,225	-	95,225
Long-term obligations:			
Due within one year:			
Bond and lease obligations	370,000	-	370,000
Interest payable	81,206	-	81,206
Accrued sick leave payable	20,000	-	20,000
Due beyond one year:			
Bond and lease obligations	6,259,000	-	6,259,000
Accrued sick leave payable	43,000	-	43,000
<b>Total liabilities</b>	<u><u>6,909,335</u></u>	<u><u>115</u></u>	<u><u>6,909,450</u></u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	1,308,527	55,083	1,363,610
Restricted for:			
Capital projects	6,887	-	6,887
Debt Service	39	-	39
SBDM	9,264	-	9,264
Accrued sick leave	15,000	-	15,000
Unrestricted	1,371,641	50,722	1,422,363
<b>Total net assets</b>	<u><u>2,711,358</u></u>	<u><u>105,805</u></u>	<u><u>2,817,163</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 9,620,693</u></u>	<u><u>\$105,920</u></u>	<u><u>\$ 9,726,613</u></u>

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

<b><u>FUNCTIONS/PROGRAMS</u></b>	<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Assets</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Governmental Activities:</b>							
Instruction	\$4,320,769	\$ 201	\$ 652,824	\$ -	\$(3,667,744)	\$ -	\$(3,667,744)
Support services:							
Student	214,291	-	-	-	(214,291)	-	(214,291)
Instructional staff	494,673	-	91,244	-	(403,429)	-	(403,429)
District administration	329,806	-	-	-	(329,806)	-	(329,806)
School administration	374,481	-	-	-	(374,481)	-	(374,481)
Business	132,105	-	-	-	(132,105)	-	(132,105)
Plant operations and maintenance	587,349	-	-	-	(587,349)	-	(587,349)
Student transportation	431,432	-	16,433	-	(414,999)	-	(414,999)
Community service	98,892	-	87,664	-	(11,228)	-	(11,228)
Facility acquisition and construction	89,405	-	-	99,258	9,853	-	9,853
Interest on long-term debt	275,742	-	-	75,754	(199,988)	-	(199,988)
Total governmental activities	7,348,945	201	848,165	175,012	(6,325,567)	-	(6,325,567)
<b>Business-Type Activities:</b>							
Food services	448,073	181,221	184,158	-	-	(82,694)	(82,694)
Total business-type activities	448,073	181,221	184,158	-	-	(82,694)	(82,694)
<b>TOTAL SCHOOL DISTRICT</b>	<b>\$7,797,018</b>	<b>\$181,422</b>	<b>\$1,032,323</b>	<b>\$175,012</b>	<b>(6,325,567)</b>	<b>(82,694)</b>	<b>(6,408,261)</b>
General revenue and receipts:							
Taxes:							
Real estate					1,790,914	-	1,790,914
Motor vehicle					208,636	-	208,636
Utility					399,294	-	399,294
In lieu					412,352	-	412,352
Other					206	-	206
State aid - formula grants					2,419,637	-	2,419,637
Investment earnings					42,429	1,182	43,611
On-behalf payments					927,649	51,719	979,368
Other					17,781	9,074	26,855
Special items:							
Gain on sale of equipment					9,656	-	9,656
Total general revenue and special items					6,228,554	61,975	6,290,529
Change in net assets					(97,013)	(20,719)	(117,732)
Net assets, July 1, 2004					2,808,371	126,524	2,934,895
Net assets, June 30, 2005					<u>\$ 2,711,358</u>	<u>\$105,805</u>	<u>\$ 2,817,163</u>

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2005**

<b><u>ASSETS</u></b>	<b>General Fund</b>	<b>Special Revenue (Grant) Funds</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>
Cash and cash equivalents	\$1,413,467	\$ 4,300	\$ 39	\$1,417,806
Accounts receivable:				
Taxes	78,987	-	6,887	85,874
Accounts	2,878	-	-	2,878
Intergovernmental - state	-	1,226	-	1,226
Intergovernmental - federal	-	100,052	-	100,052
<b>TOTAL ASSETS</b>	<b>\$1,495,332</b>	<b>\$105,578</b>	<b>\$6,926</b>	<b>\$1,607,836</b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ 30,551	\$ 10,353	\$ -	\$ 40,904
Deferred revenues	-	95,225	-	95,225
Accrued sick leave payable	20,000	-	-	20,000
<b>Total liabilities</b>	<b>50,551</b>	<b>105,578</b>	<b>-</b>	<b>156,129</b>
<b>Fund Balances:</b>				
Reserved for SBDM	9,264	-	-	9,264
Reserved for accrued sick leave	15,000	-	-	15,000
Reserved for capital projects	-	-	6,887	6,887
Reserved for debt service	-	-	39	39
Unreserved	1,420,517	-	-	1,420,517
<b>Total fund balances</b>	<b>1,444,781</b>	<b>-</b>	<b>6,926</b>	<b>1,451,707</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$1,495,332</b>	<b>\$105,578</b>	<b>\$6,926</b>	<b>\$1,607,836</b>

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

Total fund balance per fund financial statements	\$ 1,451,707
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost	\$ 11,869,834	
Accumulated depreciation	<u>(4,090,316)</u>	7,779,518

Certain long-term assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.

Delinquent taxes	75,331
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Deferred charges including debt issue costs are amortized in the governmental activities, but were recognized in full in the governmental funds.	158,008
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Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.

Interest payable	(81,206)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bond and lease obligations	(6,629,000)	
Accrued sick leave payable	<u>(43,000)</u>	<u>(6,672,000)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,711,358</u></u>
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Note: Other funds consist of the Capital Project Funds and Debt Service Fund.

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>General Fund</b>	<b>Special Revenue (Grant) Funds</b>	<b>Nonmajor Funds</b>	<b>Totals Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$2,572,587	\$ -	\$ 269,577	\$2,842,164
Earnings on investments	42,059	368	2	42,429
Intergovernmental - state	3,347,286	287,907	175,012	3,810,205
Intergovernmental - federal	-	548,833	-	548,833
Other	15,286	11,425	2,697	29,408
Total revenues	<u>5,977,218</u>	<u>848,533</u>	<u>447,288</u>	<u>7,273,039</u>
<b>Expenditures:</b>				
Current:				
Instruction	3,446,224	665,395	-	4,111,619
Support services:				
Student	213,911	-	-	213,911
Instructional staff	393,362	91,244	-	484,606
District administration	330,179	-	-	330,179
School administration	374,325	-	-	374,325
Business	132,496	-	-	132,496
Plant operations and maintenance	583,268	-	-	583,268
Student transportation	443,474	16,433	-	459,907
Community service	5,994	87,798	-	93,792
Facility acquisition and construction	89,909	-	180,279	270,188
Debt service:				
Principal	-	-	354,000	354,000
Interest and other charges	-	-	257,896	257,896
Total expenditures	<u>6,013,142</u>	<u>860,870</u>	<u>792,175</u>	<u>7,666,187</u>
Excess (deficit) of revenues over expenditures	<u>(35,924)</u>	<u>(12,337)</u>	<u>(344,887)</u>	<u>(393,148)</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of assets	9,656	-	-	9,656
Operating transfers in	-	12,337	535,600	547,937
Operating transfers out	(235,128)	-	(312,809)	(547,937)
Total other financing sources (uses)	<u>(225,472)</u>	<u>12,337</u>	<u>222,791</u>	<u>9,656</u>
Net change in fund balances	(261,396)	-	(122,096)	(383,492)
Fund balances, July 1, 2004	<u>1,706,177</u>	<u>-</u>	<u>129,022</u>	<u>1,835,199</u>
FUND BALANCES, JUNE 30, 2005	<u><u>\$1,444,781</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,926</u></u>	<u><u>\$1,451,707</u></u>

See notes to financial statements.



**LYON COUNTY BOARD OF EDUCATION**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Net change in fund balance	\$ (383,492)
----------------------------	--------------

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the year.

Depreciation expense	\$ (374,988)	
Capital outlays	<u>356,076</u>	(18,912)

Bond proceeds are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal paid	354,000
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Governmental funds report the effect of issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Amortization of debt issuance costs and discounts	(20,367)
---	----------

Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.

Delinquent taxes	(30,763)
------------------	----------

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resource, but expense is recognized in the statement of activities when they are incurred. These net differences are as follows:

Accrued interest expense	<u>2,521</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (97,013)</u></u>
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See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**JUNE 30, 2005**

<b><u>ASSETS</u></b>	<b><u>Enterprise Fund Food Services</u></b>
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 28,519
Accounts receivable:	
Intergovernmental - federal	15,459
Inventories	6,859
	<hr/>
Total current assets	50,837
	<hr/>
<b>Noncurrent Assets:</b>	
Buildings and improvements	59,229
Furniture and equipment	143,130
Less accumulated depreciation	(147,276)
	<hr/>
Total noncurrent assets	55,083
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 105,920</b>
	<hr/> <hr/>
 <b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>Current Liabilities:</b>	
Accounts payable	\$ 115
	<hr/>
<b>Net Assets:</b>	
Invested in capital assets	55,083
Unrestricted	50,722
	<hr/>
Total net assets	105,805
	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 105,920</b>
	<hr/> <hr/>

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Enterprise Fund Food Services</b>
<b>Operating Revenues:</b>	
Lunchroom sales	\$ 179,832
Other operating revenues	10,463
Total operating revenues	<u>190,295</u>
<b>Operating Expenses:</b>	
Salaries and wages	259,746
Contract services	2,600
Materials and supplies	174,381
Depreciation expense	3,042
Other operating expenses	8,304
Total operating expenses	<u>448,073</u>
Operating loss	<u>(257,778)</u>
<b>Nonoperating Revenues (Expenses):</b>	
Federal grants	157,699
Federal grants - in-kind commodities	21,699
State grants	56,479
Interest income	1,182
Total nonoperating revenues (expenses)	<u>237,059</u>
Net loss	<u>(20,719)</u>
Change in net assets	(20,719)
Net assets, July 1, 2004	<u>126,524</u>
NET ASSETS, JUNE 30, 2005	<u><u>\$ 105,805</u></u>

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Proprietary Fund Type Enterprise Fund</b>
<b>Cash Flows from Operating Activities:</b>	
Cash received from:	
Lunchroom sales	\$ 190,295
Cash paid to/for:	
Employees	(259,746)
Contract services	(2,600)
Supplies	(149,014)
Other activities	(8,304)
	<u>(229,369)</u>
Net cash used by operating activities	<u>(229,369)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Government grants	<u>209,128</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Purchases of capital assets	<u>(15,261)</u>
<b>Cash Flows from Investing Activities:</b>	
Receipt of interest income	<u>1,182</u>
Net decrease in cash and cash equivalents	(34,320)
Cash and cash equivalents, July 1, 2004	<u>62,839</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2005</b>	<b><u><u>\$ 28,519</u></u></b>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (257,778)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	3,042
Commodities used	21,699
Change in assets and liabilities:	
Inventory	4,280
Accounts payable	(612)
 NET CASH USED BY OPERATING ACTIVITIES	 <u><u>\$ (229,369)</u></u>
<b>Schedule of Noncash Transactions:</b>	
Donated commodities received from federal government	<u><u>\$ 21,699</u></u>

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2005**

<b>Assets:</b>	<b>Agency Funds</b>
Cash and cash equivalents	<u>\$55,697</u>
<b>Liabilities:</b>	
Accounts payable	3,700
Due to student groups	30,005
Due to students in general	21,522
Due to teachers	<u>470</u>
Total liabilities	<u>55,697</u>
NET ASSETS	<u><u>\$ -</u></u>

See notes to financial statements.

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Note 1 – Reporting Entity:**

The Lyon County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Lyon County, Kentucky. The Board receives funding from local, state, and federal government sources and must comply with the commitment requirement of these funding source entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards because Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Lyon County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations nor has any influence over the operation of the organizations.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements.

**Lyon County School Board Finance Corporation** - In 1990, the Lyon County, Kentucky, Board of Education resolved to authorize the establishment of the Lyon County School District Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Lyon County Board of Education also comprise the Corporation’s Board of Directors.

**Note 2 – Summary of Significant Accounting Policies:**

The Board’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the Board’s accounting policies are described below.

**Basis of Presentation**

**Government-Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the Board as a whole. These statements include all financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2005

**Note 2 – Summary of Significant Accounting Policies:**

**Basis of Presentation**

**Government-Wide Financial Statements**

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Board and for each function or program of the Board's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Board.

**Fund Financial Statements**

The financial transactions of the Board are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenue and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in total net assets. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

The Fiduciary Funds are reported using the economic resource measurement focus.

**Fund Accounting**

The Board has the following funds:

a. Governmental Fund Types

The General Fund is the primary operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the Board per GASB 34.

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Note 2 – Summary of Significant Accounting Policies:**

**Fund Accounting**

a. Governmental Fund Types

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the Board.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the Board's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the Board's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

b. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$21,699 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

c. Fiduciary Fund Types

Agency funds account for assets held by the Board in a purely custodial capacity. Since Agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

(Continued)



**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Note 2 – Summary of Significant Accounting Policies:**

**Basis of Accounting**

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board, available means expected to be received within sixty days of the fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On the modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**Property Taxes**

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they are levied.

The property tax rates assessed for the year ended June 30, 2005, to finance operations were \$.406 per \$100 valuation for real property, \$.410 per \$100 valuation for business personal property and \$.375 per \$100 valuation for motor vehicles.

The Board also levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gases.

**Budgetary Process**

Budgetary Basis of Accounting – The Board's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Note 2 – Summary of Significant Accounting Policies:**

**Budgetary Process**

Expenditures are recorded with paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

**Cash and Cash Equivalents**

The Board considers demand deposits, money market funds, and other investments with a maturity of ninety days or less, to be cash equivalents.

**Inventories**

The only inventory maintained by the Board consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchase food is valued at cost.

**Debt Costs**

Unamortized debt issuance costs in the amount of \$69,559 and unamortized discounts of \$88,449 are included in the government-wide statements. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the effective interest method.

**Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of one thousand dollars with the exception of computers, printers and real property for which there is no threshold. The Board does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not.

All capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	10 years
Rolling stock	15 years
Other	10 years

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Note 2 – Summary of Significant Accounting Policies:**

**Accumulated Unpaid Sick Leave Benefits**

For those employees who qualify, the Board has adopted a policy of providing at retirement a percentage of their accumulated unused sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination payments. The liability is based on the Board's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the General Fund. The noncurrent portion of the liability is not reported.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Operating Revenues and Expenses**

Operating revenues and expenses are those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2005

**Note 2 – Summary of Significant Accounting Policies:**

**Use of Restricted Sources**

When an expense is incurred for which there are both restricted and unrestricted net assets available, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

**Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Note 3 – Restatement of Fund Balance and Net Assets:**

At June 30, 2004, amounts were recorded as accrued short-term sick leave and accrued long-term sick leave for the General Fund. These were subsequently determined to be overstated for fiscal year 2004.

The restatement for the correction is as follows:

General Fund balance, June 30, 2004	\$1,692,177
Correction of beginning accrued short-term sick leave	<u>14,000</u>
<b>ADJUSTED GENERAL FUND BALANCE, JUNE 30, 2004</b>	<b><u>\$1,706,177</u></b>
Government activities net assets, June 30, 2004	\$2,711,839
Correction of beginning accrued short-term sick leave	14,000
Correction of beginning accrued long-term sick leave	<u>82,532</u>
<b>GOVERNMENTAL ACTIVITIES NET ASSETS, JUNE 30, 2004</b>	<b><u>\$2,808,371</u></b>

**Note 4 – Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Note 5 – Cash and Cash Equivalents:**

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trusts with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2005

**Note 5 – Cash and Cash Equivalents:**

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. The Board has no investment policy that would further limit its investment choices.

At year end, the carrying amount of the Board's cash and cash equivalents was \$1,502,022 and the bank balance was \$1,905,482. Of the bank balance, \$100,040 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. This remaining balance of \$1,805,442 was uninsured and collateralized with securities held by the pledging bank's agent not in the Board's name.

**Note 6 – Capital Assets:**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<b>Balance</b>			<b>Balance</b>
<b>Governmental Activities:</b>	<b><u>July 1, 2004</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2005</u></b>
Land	\$ 16,806	\$ -	\$ -	\$ 16,806
Land improvements	724,533	-	-	724,533
Buildings and improvements	5,731,012	3,571,698	-	9,302,710
Technology equipment	648,574	46,910	35,804	659,680
General equipment	120,845	16,718	-	137,563
Vehicles	995,654	113,560	80,672	1,028,542
Construction in progress	<u>3,392,810</u>	<u>178,888</u>	<u>3,571,698</u>	<u>-</u>
Total at historical cost	<u>11,630,234</u>	<u>3,927,774</u>	<u>3,688,174</u>	<u>11,869,834</u>
Less accumulated depreciation:				
Land improvements	421,107	35,160	-	456,267
Buildings and improvements	2,216,781	191,462	-	2,408,243
Technology equipment	507,620	67,508	35,804	539,324
General equipment	88,536	6,387	-	94,923
Vehicles	<u>597,760</u>	<u>74,471</u>	<u>80,672</u>	<u>591,559</u>
Total accumulated depreciation	<u>3,831,804</u>	<u>374,988</u>	<u>116,476</u>	<u>4,090,316</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS – NET	<u>\$ 7,798,430</u>	<u>\$3,552,786</u>	<u>\$3,571,698</u>	<u>\$ 7,779,518</u>

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2005

**Note 6 – Capital Assets:**

	<b>Balance</b>			<b>Balance</b>
<b>Business-Type Activities:</b>	<b><u>July 1, 2004</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2005</u></b>
Buildings and improvements	\$ 59,229	\$ -	\$ -	\$ 59,229
Food service equipment	124,669	12,377	-	137,046
Technology equipment	<u>5,288</u>	<u>2,884</u>	<u>2,088</u>	<u>6,084</u>
Totals at historical cost	<u>189,186</u>	<u>15,261</u>	<u>2,088</u>	<u>202,359</u>
Less accumulated depreciation:				
Buildings and improvements	21,224	1,185	-	22,409
Food service equipment	120,638	1,200	-	121,838
Technology equipment	<u>4,460</u>	<u>657</u>	<u>2,088</u>	<u>3,029</u>
Total accumulated depreciation	<u>146,322</u>	<u>3,042</u>	<u>2,088</u>	<u>147,276</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>CAPITAL ASSET – NET</b>	<u>\$ 42,864</u>	<u>\$12,219</u>	<u>\$ -</u>	<u>\$ 55,083</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$246,764
Support services:	
Student	1,108
Instructional staff	10,067
District administration	8,532
School administration	5,978
Business	1,019
Plant operations and maintenance	9,852
Student transportation	86,568
Community service	<u>5,100</u>
<b>TOTAL DEPRECIATION EXPENSE</b>	<u><b>\$374,988</b></u>

**Note 7 – Bond and Lease Obligations:**

The amount shown in the accompanying government-wide financial statements as lease obligations represents the Board's future obligations to make lease payments relating to the bonds issued by the Lyon County School District Finance Corporation. These lease payments also relate to project bonds issued by Kentucky Interlocal School Transportation Association (KISTA). Bond and lease obligations are not reflected on the fund financial statements.

The Board, through the General Fund, Facility Support Program Levy Fund, and the SEEK Capital Outlay Fund, is obligated to make lease payments. The lease agreements provide, among other things, for the rentals sufficient to satisfy debt service requirements on bonds issued by the Lyon County School District Finance Corporation to construct school facilities. The Board has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become property of the Board. The Board is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2005

**Note 7 – Bond and Lease Obligations:**

The KISTA project bonds provided funds for construction projects of the Board. The Board leases and rents the projects from KISTA on an annual basis. The semi-annual bond interest and principal payments constitute the lease payments. The Board is also obligated to maintain the projects in good repair over the life of the lease terms.

The original amount of each issue, the issue date, and interest rates are summarized below.

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
November 1, 1998	\$ 975,000	3.65%-4.00%
KISTA 2000	252,000	5.00%
October 1, 2001	1,225,000	2.20%-3.95%
September 1, 2002	3,900,000	1.60%-4.40%
January 1, 2003	1,500,000	1.15%-3.85%

In 1995, 1998, 2001, and 2003, the Board has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the Board and, as such, the total principal outstanding has been recorded in the financial statements.

All bonds may be called prior to maturity at dates and redemption premiums specified in each bond issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the Board including amounts to be paid by the Commission, at June 30, 2005, for debt service (principal and interest) are as follows:

<u>Fiscal Year</u>	<u>Lyon County Board of Education</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2005-2006	\$ 312,760	\$ 230,068	\$ 57,240	\$ 18,515	\$ 618,583
2006-2007	316,907	221,336	59,093	16,663	613,999
2007-2008	326,868	211,525	61,132	14,623	614,148
2008-2009	340,661	200,695	63,339	12,415	617,110
2009-2010	350,311	188,697	65,689	10,066	614,763
2010-2011	361,812	175,581	68,188	7,566	613,147
2011-2012	374,178	162,533	70,822	4,932	612,465
2012-2013	330,752	147,349	39,248	2,161	519,510
2013-2014	340,783	135,761	9,217	709	486,470
2014-2015	350,442	123,286	9,558	368	483,654
2015-2016	290,000	108,030	-	-	398,030
2016-2017	300,000	96,670	-	-	396,670
2017-2018	315,000	84,520	-	-	399,520
2018-2019	330,000	71,455	-	-	401,455
2019-2020	345,000	57,445	-	-	402,445
2020-2021	360,000	42,460	-	-	402,460
2021-2022	380,000	26,360	-	-	406,360
2022-2023	400,000	9,000	-	-	409,000
<b>TOTALS</b>	<b><u>\$6,125,474</u></b>	<b><u>\$2,292,771</u></b>	<b><u>\$503,526</u></b>	<b><u>\$ 88,018</u></b>	<b><u>\$9,009,789</u></b>

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2005

**Note 7 – Bond and Lease Obligations:**

A summary of the lease principal balance activity was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2005</u>
<b>Bond obligations:</b>				
Board	\$6,423,939	\$ -	\$298,465	\$6,125,474
Commission	<u>559,061</u>	<u>-</u>	<u>55,535</u>	<u>503,526</u>
<b>TOTALS</b>	<u>\$6,983,000</u>	<u>\$ -</u>	<u>\$354,000</u>	<u>\$6,629,000</u>

**Defeasance of Debt**

The Board defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements. On June 30, 2005, \$1,270,000 of bonds outstanding are considered defeased.

**Note 8 – Commitments Under Non-Capitalized Leases:**

Commitments under operating lease agreements for equipment provide for minimum future rental payments as follows:

<u><b>Fiscal Year</b></u>	
2005-2006	<u>\$2,772</u>

Rent expense for the year ended June 30, 2005, was \$6,652.

**Note 9 – Retirement Plans:**

**Plan Descriptions**

The Lyon County Board of Education participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing multiple-employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system and other public educational agencies in Kentucky.

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan.

Kentucky Teachers' Retirement System  
479 Versailles Road  
Frankfort, Kentucky 40601-3800  
(502) 573-3266

Kentucky Retirement Systems  
Perimeter Park West  
1260 Louisville Road  
Frankfort, Kentucky 40601-6124  
(502) 564-4646

(Continued)



**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**Note 9 – Retirement Plans:**

**Funding Policies**

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 9.855% of their annual covered salary and the State provides a contribution of 13.105%, except for federal programs. The 13.105% matching contribution for covered salaries of federal programs are paid by that program. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary and the Lyon County Board of Education provides a contribution of 8.48% of that salary. The Board's total payroll for the year was \$4,546,431. The payroll for employees covered under KTRS was \$3,344,432. For the year ended June 30, 2005, the Commonwealth contributed \$412,555 to KTRS for the benefit of participating employees. The Board's contribution to KTRS for the year ended June 30, 2005, was \$25,732, which represents those employees covered by federal program. The contribution requirements and the amounts contributed to CERS were \$149,211, \$127,434, and \$104,766, respectively, for the years ended June 30, 2005, 2004, and 2003.

**Note 10 – Benefits Funded by Kentucky State Department of Education:**

For the year ended June 30, 2005, the Kentucky State Department of Education contributed estimated payments benefiting the Board as follows:

Contributions to Kentucky Teachers' Retirement System	\$412,555
Technical education	36,437
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>530,376</u>
TOTAL	<u>\$979,368</u>

These payments are recorded in the General and School Food Service Funds as revenue and expenditures. The Board is not legally responsible for these contributions.

**Note 11 – Contingencies:**

The Board receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For governmental agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Board for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Board's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

**Note 12 – Insurance and Related Activities:**

The Lyon County Board of Education is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The Board has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

(Continued)

**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2005

**Note 13 – Risk Management:**

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the Board participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school boards and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The Board pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Funds are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The Board purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the Board continues to carry commercial insurance for all other risks of loss, including the coverages listed on page 43 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 14 – COBRA:**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**Note 15 – Excess of Expenditures over Appropriations:**

The Board has no funds with a deficit fund balance. Actual expenditures exceed appropriations by \$223,711 in the Special Revenue Fund and by \$15,025 in the Construction Fund groups. The total appropriations differ from individual fund appropriations due to inaccuracies in the software relating to the budget process.

**Note 16 – Transfer of Funds:**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	Matching	\$ 12,337
Operating	1	Debt Service	Debt Service	222,791
Operating	320	Debt Service	Debt Service	223,186
Operating	310	Debt Service	Debt Service	89,400
Operating	360	Debt Service	Debt Service	223

## **REQUIRED SUPPLEMENTARY INFORMATION**

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
<b>Revenues:</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
From local sources:				
Taxes	\$ 2,242,000	\$ 2,324,000	\$ 2,572,587	\$ 248,587
Other	39,500	22,500	57,345	34,845
Intergovernmental - state	2,399,500	2,382,370	3,347,286	964,916
Other sources	-	-	9,656	9,656
Total revenues	4,681,000	4,728,870	5,986,874	1,258,004
<b>Expenditures:</b>				
Instruction	2,699,667	2,791,772	3,446,224	(654,452)
Support services:				
Student	222,628	221,576	213,911	7,665
Instructional staff	355,476	351,899	393,362	(41,463)
District administration	907,549	851,579	330,179	521,400
School administration	345,481	346,961	374,325	(27,364)
Business	105,425	104,261	132,496	(28,235)
Plant operations and maintenance	553,850	522,974	583,268	(60,294)
Student transportation	474,730	475,043	443,474	31,569
Community service activities	6,095	6,258	5,994	264
Facilities acquisition and construction	155,000	130,000	89,909	40,091
Other	218,630	227,590	235,128	(7,538)
Total expenditures	6,044,531	6,029,913	6,248,270	(218,357)
Excess (deficit) of revenues over expenditures and net change in fund balances	(1,363,531)	(1,301,043)	(261,396)	1,039,647
Fund balances, July 1, 2004	1,363,531	1,301,043	1,706,177	405,134
FUND BALANCES, JUNE 30, 2005	\$ -	\$ -	\$ 1,444,781	\$ 1,444,781

**Note 1 - Benefits Funded by Kentucky State Department of Education:**

The budget presented above does not include on-behalf payments provided by the Kentucky State Department of Education. Had on-behalf payments been included, budgetary revenues would total \$5,656,519 and budgetary expenditures would total \$6,957,562.

**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
<b>Revenues:</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
From local sources	\$ -	\$ (9,364)	\$ 11,793	\$ 21,157
Intergovernmental - state	256,321	299,431	287,907	(11,524)
Intergovernmental - federal	513,044	347,503	548,833	201,330
Other sources	10,000	(411)	12,337	12,748
<b>Total revenues</b>	<b>779,365</b>	<b>637,159</b>	<b>860,870</b>	<b>223,711</b>
<b>Expenditures:</b>				
Instruction	635,802	489,230	665,395	(176,165)
Support services:				
Instructional staff	49,279	68,523	91,244	(22,721)
Student transportation	23,886	1,000	16,433	(15,433)
Community service activities	76,910	78,406	87,798	(9,392)
<b>Total expenditures</b>	<b>785,877</b>	<b>637,159</b>	<b>860,870</b>	<b>(223,711)</b>
Excess (deficit) of revenues over expenditures and net change in fund balances	(6,512)	-	-	-
Fund balances, July 1, 2004	-	-	-	-
<b>FUND BALANCES, JUNE 30, 2005</b>	<b>\$ (6,512)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION**

**LYON COUNTY BOARD OF EDUCATION**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2005**

<b><u>ASSETS</u></b>	<b><u>FSPK Fund</u></b>	<b><u>SEEK Capital Outlay Fund</u></b>	<b><u>Construction Fund</u></b>	<b><u>Debt Service Fund</u></b>	<b><u>Total Nonmajor Governmental Funds</u></b>
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 39	\$ 39
Accounts receivable	6,887	-	-	-	6,887
<b>TOTAL ASSETS</b>	<b><u>\$6,887</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 39</u></b>	<b><u>\$6,926</u></b>
 <b><u>FUND BALANCES</u></b>					
<b>Fund Balances:</b>					
Unreserved:					
Undesignated, reported in:					
Capital project funds	\$6,887	\$ -	\$ -	\$ -	\$6,887
Debt service funds	-	-	-	39	39
<b>TOTAL FUND BALANCES</b>	<b><u>\$6,887</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 39</u></b>	<b><u>\$6,926</u></b>

See auditor's report on pages 1-2.

**LYON COUNTY BOARD OF EDUCATION**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>FSPK Fund</b>	<b>SEEK Capital Outlay Fund</b>	<b>Construction Fund</b>	<b>Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>					
From local sources:					
Taxes	\$ 269,577	\$ -	\$ -	\$ -	\$ 269,577
Other	1,392	-	1,305	-	2,697
Earnings on investments	-	-	-	2	2
Intergovernmental - state	9,858	89,400	-	75,754	175,012
	<u>280,827</u>	<u>89,400</u>	<u>1,305</u>	<u>75,756</u>	<u>447,288</u>
<b>Expenditures:</b>					
Facilities acquisition and construction	55,299	-	124,980	-	180,279
Debt service:					
Principal	-	-	-	354,000	354,000
Interest	-	-	-	257,896	257,896
	<u>55,299</u>	<u>-</u>	<u>124,980</u>	<u>611,896</u>	<u>792,175</u>
Excess (deficit) of revenues over expenditures	<u>225,528</u>	<u>89,400</u>	<u>(123,675)</u>	<u>(536,140)</u>	<u>(344,887)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	-	-	-	535,600	535,600
Operating transfers out	(223,186)	(89,400)	(223)	-	(312,809)
	<u>(223,186)</u>	<u>(89,400)</u>	<u>(223)</u>	<u>535,600</u>	<u>222,791</u>
Net change in fund balances	2,342	-	(123,898)	(540)	(122,096)
Fund balances, July 1, 2004	<u>4,545</u>	<u>-</u>	<u>123,898</u>	<u>579</u>	<u>129,022</u>
FUND BALANCES, JUNE 30, 2005	<u>\$ 6,887</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 6,926</u>

See auditor's report on pages 1-2.



**LYON COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**DUE TO STUDENT GROUPS AND OTHERS**  
**AGENCY FUNDS**  
**LYON COUNTY HIGH SCHOOL ACTIVITY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Due to Student Groups and Others July 1, 2004</b>	<b>Revenues Actual (1)</b>	<b>Expenditures Actual (1)</b>	<b>Due to Student Groups and Others June 30, 2005</b>
Art Club	\$ 1,072	\$ 1,733	\$ 1,267	\$ 1,538
High School Athletic	7,640	72,663	70,738	9,565
Lounge Drink Machine	1,581	1,423	2,855	149
Boys' Basketball Camp	3,031	5,383	7,624	790
Dance Team	24	-	-	24
High School Drink Machine	5	4,679	4,501	183
High School Band	100	6,581	6,123	558
High School Beta Club	170	7,133	6,760	543
Girls' Basketball Camp	999	1,140	1,792	347
High School Cheerleading	35	3,126	3,587	(426)
High School FBLA	1,231	349	506	1,074
High School FCA	136	1,157	1,293	-
High School FFA	162	14,217	12,285	2,094
High School FCCLA	217	2,570	2,280	507
High School General	337	2,631	2,877	91
Survey of Tech/Drafting	19	675	643	51
High School TSA	413	1,223	1,283	353
High School Technology Ed - Woods	21	410	431	-
Consumer Education	98	661	639	120
High School Student Instruction	-	3,600	3,575	25
High School Junior Class	108	5,897	5,991	14
High School Library	186	23	56	153
Little League	1,499	2,071	2,467	1,103
Lyon Pride Print	700	-	-	700
High School Newspaper	1,032	3,805	3,456	1,381
Pep Club	524	666	776	414
High School Snack Machine	118	2,755	2,746	127
High School Yearbook	1,291	11,750	12,968	73
Class of 2004	357	-	298	59
Class of 2005	2,012	429	2,424	17
Class of 2006	1,441	-	-	1,441
Class of 2007	1,277	-	-	1,277
Class of 2008	-	2,187	-	2,187
<b>TOTALS</b>	<b><u>\$27,836</u></b>	<b><u>\$160,937</u></b>	<b><u>\$162,241</u></b>	<b><u>\$26,532</u></b>

(1) Included in revenues and expenditures are interfund transfers totaling \$9,248.

See auditor's report on pages 1-2.

**LYON BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**DUE TO STUDENT GROUPS AND OTHERS**  
**AGENCY FUNDS**  
**LYON COUNTY MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u><b>Middle School</b></u>	<u><b>Elementary School</b></u>	<u><b>Totals</b></u>
Due to student groups and others, July 1, 2004	<u>\$ 7,674</u>	<u>\$12,942</u>	<u>\$20,616</u>
<b>Revenues:</b>			
Student activities	<u>52,660</u>	<u>28,736</u>	<u>81,396</u>
<b>Expenditures:</b>			
Student activities	<u>45,099</u>	<u>31,448</u>	<u>76,547</u>
<b>DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2005</b>	<u><u>\$15,235</u></u>	<u><u>\$10,230</u></u>	<u><u>\$25,465</u></u>

See auditor's report on pages 1-2.

**LYON COUNTY BOARD OF EDUCATION**  
**ANNUAL FINANCIAL REPORT DIFFERENCES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the Board has recorded transfers by the Capital Project Funds and the General Fund to debt service accounts as debt service payments. Debt Service Funds, which are not presented in the Board's AFR, are included in the financial statements. For reporting purposes, these payments have been reclassified as operating transfers and corresponding operating transfers have been recorded in the Debt Service Funds. The following is a reconciliation of the expenditures reported in the Board's AFR with that shown in the financial statements and the supplemental schedules.

	<b>General Fund</b>	<b>FSPK Fund</b>	<b>SEEK Capital Outlay Fund</b>	<b>Construction Fund</b>
Debt service reported to the Department of Education	\$ 222,791	\$ 223,161	\$ 89,400	\$ 223
Reclassification to operating transfer out	<u>(222,791)</u>	<u>(223,161)</u>	<u>(89,400)</u>	<u>(223)</u>
Amount per supplemental schedule	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Operating transfer out reported to the Department of Education	\$ 12,337	\$ -	\$ -	\$ -
Reclassification from debt service	<u>222,791</u>	<u>223,161</u>	<u>89,400</u>	<u>223</u>
Amount per supplemental schedule	<u><u>\$ 235,128</u></u>	<u><u>\$ 223,161</u></u>	<u><u>\$ 89,400</u></u>	<u><u>\$ 223</u></u>

See auditor's report on pages 1-2.

**LYON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF ACCOUNTS RECEIVABLE**  
JUNE 30, 2005

**General Fund:**

Accounts receivable reported in Board's annual financial  
report to the State Department of Education, Division  
of Finance

\$67,927

Additional accounts receivable recorded subsequent to  
the annual financial report:

KST - medical services

1,168

Danka - reimbursement

1,210

KSBA - community forum

500

Various companies - utility taxes

11,060

**TOTAL ACCOUNTS RECEIVABLE**

\$81,865

See auditor's report on pages 1-2.

**LYON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF ACCOUNTS PAYABLE**  
**JUNE 30, 2005**

**General Fund:**

Accounts payable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$47,430
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Additional accounts payable recorded subsequent to the annual financial report:

C & I Electronics - computers and related equipment	1,043
Romaine Companies - supplies	593
Sheriff - tax collection fees	1,055
Wegmer Corporation - supplies	3,635

Accounts payable reported in Board's annual financial report to the State Department of Education, Division of Finance that are not accounts payable	(22,806)
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Accounts payable reported in Board's annual financial report to the State Department of Education, Division of Finance that were prior year accounts payable	(304)
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Adjustment for miscellaneous payable	<u>(95)</u>
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<b>TOTAL ACCOUNTS PAYABLE</b>	<b><u><u>\$30,551</u></u></b>
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**LYON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF INSURANCE COVERAGE**  
JUNE 30, 2005

<b>Fire and Extended Coverage - 90% Co-Insurance</b>			
	<b>Expires</b>	<b>Building</b>	<b>Contents</b>
Superintendent's Office	July 1, 2005	\$ 297,600	\$ 100,000
Head Start Office	July 1, 2005	78,660	20,000
Head Start Classrooms	July 1, 2005	194,940	25,000
Even Start Classrooms	July 1, 2005	212,800	25,000
Family Resource Center	July 1, 2005	82,080	15,000
Elementary School/Phase I	July 1, 2005	2,292,000	750,000
Elementary School/Phase II	July 1, 2005	2,724,000	750,000
Jr./Sr. High School	July 1, 2005	7,116,200	1,250,000
Jr./Sr. High Library	July 1, 2005	435,200	200,000
Band Building	July 1, 2005	659,392	125,000
High School Administration	July 1, 2005	140,864	95,000
Maintenance/Storage	July 1, 2005	8,357	-
Garage/Warehouse	July 1, 2005	659,200	90,000
Cafeteria/Art Room/Elementary Gym	July 1, 2005	2,100,960	250,000
Middle School under construction	July 1, 2005	4,485,960	750,000
<b>TOTALS</b>		<b>\$21,488,213</b>	<b>\$4,445,000</b>
<b>Collision, Comprehensive, and Property Damage:</b>			
School buses and other vehicles:		<b>Amount of Coverage</b>	
Property damage	July 1, 2005		\$2,000,000
Personal injury			20,000
Comprehensive			ACV
Uninsured and underinsured motorist		\$ 500,000	500,000
<b>General Liability:</b>			
Lyon County Board of Education,			
Superintendent and employees	July 1, 2005		2,000,000
Educators' legal liability (errors and omissions)	July 1, 2005		1,000,000
Workmen's compensation			Statutory
Treasurer's bond	June 30, 2005		300,000
Crime policy	June 30, 2005		5,000
<b>Depository Bond:</b>			
BB&T Bank of Eddyville	June 30, 2005		5,789,000

See auditor's report on pages 1-2.

**MEMBERS OF THE LYON COUNTY BOARD OF EDUCATION**  
AS OF JUNE 30, 2005

<u>Name</u>	<u>Address</u>	<u>Date Elected</u>	<u>Term Expires</u>
Ruthanne Williamson, Chair	3256 State Route 818 Eddyville, Kentucky	January, 2005	December, 2008
George Glass, Vice Chair	513 Sycamore Eddyville, Kentucky	January, 2003	December, 2006
J. Dennis Gray	2180 Gray Farm Road Eddyville, Kentucky	January, 2003	December, 2006
Doris Kilgore	P.O. Box 421 Eddyville, Kentucky	January, 2005	December, 2008
Margaret McQuigg	409 Magnolia Drive Kuttawa, Kentucky	January, 2005	December, 2008

**Other Officials:**

Dr. Lee Gold, Superintendent and Secretary of the Board

Sandra Littlejohn, Treasurer of the Board

See auditor's report on pages 1-2.

**LYON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-Through Grantor's Number</u></b>	<b><u>Expenditures</u></b>
<b>U.S. Department of Education:</b>			
Passed-through Kentucky Department of Education:			
Title I, Improving America's Schools Act (ESEA)	84.010	35104 01 35105 01	\$178,598
Individuals with Disabilities Education Act - Part B	84.027	58104 02 58105 02	152,952
Individuals with Disabilities Education Act - Part B, Preschool	84.173	58705 02	12,177
Title IV - Safe and Drug-Free Schools and Communities	84.186	59003 02 59004 02	7,106
Innovative Education Program Strategies	84.298	53304 02 53305 02	6,367
Even Start	84.213	58804 02 58805 02	92,568
Improving Teacher Quality	84.367A	71003 02 71004 02	
Technology Literacy Challenge	84.318	71005 02	81,629
Learn and Serve America School and Community Based Programs	94.004	73605 02	1,586
Title I, Improving America's Schools Act (ESEA) for Migratory Children	84.011	74304 02 35204 02	3,237
Passed-through West Kentucky Educational Cooperative:			
Vocational Education - Basic Grants to States	84.048	N/A	5,971
Vocational Education - Basic Grants to States	84.048	N/A	383
Teaching American History Grants	84.215	U215X030040	4,095
Total U.S. Department of Education			<u>549,833</u>
<b>U.S. Department of Agriculture:</b>			
Passed-through Kentucky Department of Education:			
National School Lunch Program	10.555	57504 02 57505 02	132,628
School Breakfast Program	10.553	57604 05 57605 05	25,071
Passed-through Kentucky Department of Agriculture:			
Food distribution (1)	10.550	N/A	<u>21,699</u>
Total U.S. Department of Agriculture			<u>179,398</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$729,231</u></u>

See auditor's report on pages 1-2 and accompanying notes to the schedule of expenditures of federal awards.



**LYON COUNTY BOARD OF EDUCATION**  
**NOTES TO THE SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the State Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net assets.

**Note 1 – Basis of Presentation:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lyon County Board of Education and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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MICHAEL F. KARNES  
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**Report On Internal Control Over Financial Reporting  
Based On Compliance And Other Matters Based On An  
Audit Of Financial Statements Performed In Accordance With  
*Government Auditing Standards***

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Lyon County Board of Education  
Eddyville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Lyon County Board of Education's basic financial statements and have issued our report thereon dated August 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lyon County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Board in a separate letter dated August 29, 2005

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lyon County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed immaterial instances of noncompliance of specific state statutes or regulations identified in audit requirements prescribed by the State Committee for School District Audits in *Appendix II of the Independent Auditor's Contract – State Audit Requirements* as reported to management of the Board in a separate letter dated August 29, 2005.

This report is intended solely for the information and use of management, the Lyon County Board of Education, federal award agencies, pass-through entities, and the Kentucky Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Williams, William & Lentz, LLP*

August 29, 2005

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**Report On Compliance With Requirements  
Applicable To Each Major Program And Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Lyon County Board of Education  
Eddyville, Kentucky

**Compliance**

We have audited the compliance of Lyon County Board of Education with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Lyon County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lyon County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lyon County Board of Education's compliance with those requirements.

In our opinion, Lyon County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of Lyon County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Lyon County Board of Education, federal awarding agencies, pass-through entities, and the Kentucky Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Williams, William & Lenty, LLP*

August 29, 2005

**LYON COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2005**

**A. Summary of Audit Results:**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Lyon County Board of Education.
2. No reportable conditions were disclosed during the audit of the financial statements of the Lyon County Board of Education.
3. No instances of noncompliance material to the financial statements of the Lyon County Board of Education were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal awards programs.
5. The auditor's report on compliance for the major federal awards programs for the Lyon County Board of Education expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs to be reported.
7. The programs tested as major programs included:

<u>Name</u>	<u>CFDA #</u>
National School Lunch Program/ School Breakfast Program	10.555/ 10.553 (Cluster)
Individuals with Disabilities Education Act - Part B	84.027/
Individuals with Disabilities Education Act - Part B, Preschool	84.173 (Cluster)
Title I, Improving America's Schools	84.010

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Lyon County Board of Education was not determined to be a low-risk auditee.

**B. Findings – Financial Statements Audit:**

None

**C. Findings and Questioned Costs - Major Federal Programs:**

None

**LYON COUNTY BOARD OF EDUCATION**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2005**

There are no prior year findings to report.

**LYON COUNTY BOARD OF EDUCATION**

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MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 2005



WILLIAMS, WILLIAMS & LENTZ, LLP  
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Lyon County Board of Education  
Eddyville, Kentucky

We have audited the financial statements of the Lyon County Board of Education for the year ended June 30, 2005, and have issued our report thereon dated August 29, 2005. In planning and performing our audit of the financial statements of Lyon County Board of Education, we considered the Board's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls or operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the Board comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. These comments are summarized as follows:

**DISBURSEMENTS**

All prior year management letter comments appear to have been properly addressed.

**LUNCHROOM**

All prior year management letter comments appear to have been properly addressed.

**HIGH SCHOOL ACTIVITY FUNDS**

As reported in the prior year, old outstanding checks should be reviewed at the end of the fiscal year and voided if necessary. Our audit revealed one check that was outstanding as of last year.

As reported in the prior year, more care should be taken in preparing the annual financial report. The beginning balances should agree to last year's ending balances. The receipts and disbursements recorded in the recapitulation should agree to receipts and disbursement per the fund details. Adjustments for prior-year transactions should be made to current-year receipts and expenditures and not to beginning balances. We noted three beginning balances that had been adjusted for prior year activity.

An activity fund budget was not prepared. According to "A Uniform Program of Account for School Activity Funds in Kentucky Schools," (the Red Book), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the Board.

All other prior year management letter comments appear to have been properly addressed.

### **MIDDLE SCHOOL ACTIVITY FUNDS**

An activity fund budget was not prepared. According to "A Uniform Program of Account for School Activity Funds in Kentucky Schools," (the Red Book), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the Board.

Money collected from secondary receipts is not being deposited on a timely basis. During receipts testing, one secondary receipt was noted as being deposited nine days after the money was collected.

All prior year management letter comments appear to have been properly addressed.

### **ELEMENTARY SCHOOL ACTIVITY FUND**

All prior year management letter comments appear to have been properly addressed.

\* \* \* \* \*

This report is intended solely for the Board, management, and others within the organization as deemed appropriate.

A handwritten signature in black ink that reads "William, William Lenty, LLP". The signature is written in a cursive, flowing style.

August 29, 2005

**MANAGEMENT LETTER RESPONSES**

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YEAR ENDED JUNE 30, 2005

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# Lyon County Schools

**Dr. Lee Gold, Superintendent**

To: Williams, Williams & Lentz, LLP

Responses to management letter

## **HIGH SCHOOL ACTIVITY FUNDS**

Outstanding checks will be reviewed at the end of each month for any check that has not been cashed. The person or company will be contacted to cash the check. If it is not cashed, the check will then be voided.

Adjustments for the prior year transactions will be made to the current year receipts and expenditures and not to the beginning balances.

All organizations having an activity fund will be required to have a budget submitted to the principal by April 15<sup>th</sup>.

## **MIDDLE SCHOOL ACTIVITY FUNDS**

The activity fund budget will be added to the SBDM agenda for the next meeting and a budget will be formulated in accordance with policy.

The receipt and deposit procedure will be reviewed in the next faculty meeting. An office meeting has taken place concerning the timely deposit of funds and the discrepancies will be rectified.

*In partnership with and in service to our community, the Lyon County School District will enable all students to be productive members of society at their maximum potential, by providing the best education possible.*

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"Equal Educational and Employment Opportunities"

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